OLL 83-2347
30 September 1983

MEMORANDUM FOR THE RECORD

SUBJECT: House Committee on Armed Services Hearing on H.F. 2545, "The Defense Procurement Reform Act of 1983"

SUMMARY: The House Committee on Armed Services, Subcommittee on Investigations, held a hearing on H.R. 2545 on 29 September 1983. The Director, Office of Federal Procurement Policy (OFPP), testified, as did one industry association. The OFPP will probably assist the Subcommittee in redrafting the Bill (at the Subcommittee's initiative) so that, as S. 338 does, it will address both the Armed Services Procurement Act and the Federal Property and Administrative Services Act. It only addresses the former as it now is drafted. H.R. 2545 and S. 338, now on the Senate calendar, will probably go to conference, and this proposed rewrite will make them more similar than is now the case.

1. The House Committee on Armed Services, Subcommittee on Investigations, held a hearing on H.R. 2545, "The Defense Procurement Reform Act of 1983, on 29 September 1983. Attached for your information are the prepared statements of the principal speaker, the Director of the Office of Federal Procurement Policy (OFPP), and of one of the industry associations testifying, the American Electronics Association. Both speakers testified nearly verbatim. Nine of the fourteen members were present for all or a part of the morning session.

2. During the question-and-answer session following Mr. Sowles' (D/OFPP) testimony, two issues were dealt with in depth. The first concerned merging the two principal procurement statutes--the Armed Services Procurement Act (ASPA) and the Federal Property and Administrative Services Act (FPASA)--into a single statute. In responding, Mr. Sowle restated, in part, his testimony (see pages 10 and 11) that if uniformity was the legislative objective--and he opined that it should be--then the two should be merged (optimally) or at least modified to provide the same

requirements so that the private sector would have an easier time dealing with the Federal government. He noted that S. 338, "The Competition in Contracting Act of 1983," as reported out by both the Government Affairs and Armed Services Committees of the Senate, amends both the ASPA and the FPASA.

3. The second issue dealt with was the H.R. 2545 threshold for application. Mr. Sowle made the point repeatedly that he favored a $100,000 threshold for contractor certification purposes while retaining the $500,000 threshold for pre-award audit purposes. He drew a clear distinction between a contractor certifying the currency, accuracy, and completeness of its cost data and the government performing a pre-award audit of same. The Congressmen had difficulty understanding this distinction and Mr. Sowle finally opined that he "wouldn't spill any blood" over the issue if, in the final analysis, it became a contentious one.

4. In closing, the Subcommittee Chairman asked if Mr. Sowle and his staff would be willing to work with the Subcommittee staff in redrafting portions of Sections 4 and 5 of H.R. 2545. Mr. Sowle expressed a complete willingness to do so.

5. In passing, I should make two notes. During a give-and-take between Mr. Sowle and Mr. Abraham Kazen, Jr. (D., TX) it became evident that one large impediment to ever merging the ASPA and FPASA statutes into one is the Congressional jurisdiction issue, at least in the House, between the Committee on Armed Services (ASPA statute) and the Committee on Government Operations (FPASA statute). The second note is that H.R. 2545 will probably be rewritten and OFPP may well play a key role in doing so.

6. The Office of Legislative Liaison will continue to follow this issue and report as appropriate.

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Attachments
As stated

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STAT LD/OLL: [redacted] (3 October 1983)

Statement of
A. Thomas Connolly
Vice President, Finance and Administration
M/A Com, Inc.

before the

Subcommittee on Investigations
Committee on Armed Services
United States House of Representatives

September 29, 1983

Summary

- The central thrust of H.R.2545 is to promote effective competition among suppliers of goods and services to the U.S. Government assuring, therefore, that the costs of such goods and services will be determined through the operation of a free and open marketplace.

- We are confident that the mutual efforts of both the House and the Senate will produce meaningful legislation that will promote and optimize the use of America's free enterprise system and also protect the interest of the American taxpayer.

- The certification threshold primarily affects only small government contractors, since the bulk of large contractors' business involves contracts well in excess of $500,000 and since for all practical purposes these large contractors already are fully staffed and resourced to work with certification requirements.

- AEA feels that the provisions of H.R.2545 are more in consonance with today's economic realities and that they optimize the use and focus of the procurement process and the human resources utilized in that process.

- It must be understood that the U.S. Government must not only bear the cost of its own human resources it must also bear the cost of industry personnel engaged in the procurement process.

- The principal determinant of price is and ought to be the inherent desire to sustain a fruitful and profitable relationship with a good customer over the long term and the willingness of reasonable and competent people to negotiate in good faith.

Statement of
A. Thomas Connolly
Vice President, Finance & Administration
M/A Com, Inc.

before the

House Armed Services Committee

September 29, 1983

I am appearing before you today on behalf of the American Electronics Association. AEA now represents over 2,300 member companies nationwide, and over 450 financial, legal and accounting organizations which participate as associate members. AEA encompasses all segments of the electronics industry including manufacturers and suppliers of computers and peripherals, semiconductors and other components, telecommunications equipment, defense systems and products, instruments, software, research, and office systems. The AEA membership includes companies of all sizes from "start-ups" to the largest companies in the industry, but the largest number (80%) are small companies employing fewer than 200 employees. Together our companies account for 63% of the worldwide sales of the U.S. based electronics industry.

The central thrust of H.R.2545 is to promote effective competition among suppliers of goods and services to the United States Government assuring, therefore, that the costs of such goods and services will be determined through the operation of a free and open marketplace. Our faith in and our reliance upon such a marketplace has made the American economy the strongest the world has ever seen.

The position of the American Electronics Association in this matter is a very simple one - we support open and intensive competition. We feel that such competition should be the principal determinant of price. Not only does AEA support any legislative effort on the part of Congress to achieve that end, it is willing to participate in the legislative process in any way that this Committee sees fit.

Essentially the same proposition addressed in H.R.2545 is being considered in a constructive way in the United States Senate in S.338. We are confident that the mutual efforts of both the House and the Senate will produce meaningful legislation that will promote and optimize the use of America's free enterprise system and also protect the interests of the American taxpayer. The latter is inexorably dependent upon the former.

I want to point out today that the legislation under consideration in the Senate (S.338) differs from that of H.R.2545 in certain important ways. Prior to the enactment of law these differences will have to be contemplated, debated and resolved and I am confident that a responsible solution will be reached.

One of the provisions of H.R.2545 which distinguishes it from its Senate counterpart permits agency heads to use other than competitive procedures when "the contract to be awarded results from acceptance of an unsolicited proposal that demonstrates a unique or innovative concept". The Senate bill does not contain such a provision. However, AEA feels that where a company, particularly one in the high technology industry, devotes its own time and resources to the understanding of a problem and then submits an unsolicited proposal offering the government a unique solution to that problem, then that company should be allowed the opportunity to negotiate a sole source contract.

Another one of the differences that has prompted much comment and debate is the provision in each bill that would require certification of cost or pricing data in those instances where cost or pr

I would like to focus the rest of my statement on this provision. In essence, H.R.2545 would require certification of costs or pricing data whenever adequate price competition does not exist and the instant procurement would result in a contract for an amount in excess of $500,000. That $500,000 threshold is consistent with existing law (as amended by Congress in the FY 82 Defense Authorizations). S.338 would reduce the certification requirement to $100,000.

AEA believes that certification of cost or pricing data is warranted if not essential in those procurement instances where adequate price competition is not operative.

While in substantial accord with the general provisions of both H.R.2545 and S.338, AEA feels that the provisions of H.R.2545 are more in consonance with today's economic realities and that they optimize the use and focus of the procurement process and the human resources utilized in that process.

The requirement for certification of cost or pricing data was established in 1962 at $100,000. If one were to discount today's dollar at 8% per annum for 21 years one would see that the certification provisions of H.R.2545 would translate to approximately $99,300 1962 dollars. Therefore, H.R.2545 has placed the certification provisions at approximately the same threshold as did Public Law 87-653 some 21 years ago. Stated differently, to restore the certification threshold to the 1962 level would be the equivalent of having established the original threshold at about $20,000. If Congress felt that the 1962 certification requirements were practical and reasonable, I fail to see that anything has happened during the ensuing 21 years that would warrant this provision effectively to increase by a factor of five. S.338 does essentially that.

I should note that the issue involving the certification threshold is not of any particular concern or interest to most major defense contractors. Indeed I would be surprised if it

were. After all, the procurement actions under $100,000 or $500,000 for that matter would be of no material financial consequence to major contractors. Testimony by Harvey Gordon of DOD's Acquisition Management office, has stated that over the past two fiscal years, 13,752 DOD procurement actions out of a total of 65,666 DOD actions involved contracts over $500,000. However, these 13,752 actions (21% of the total) accounted for over 92% of expenditures. Thus, it is the remaining 8% of expenditures (79% of total actions) which falls under the $500,000 threshold and which is of particular importance to smaller defense contractors.

Further, for all practical purposes, large contractors are already fully staffed and resourced to work with Public Law 87-653 regardless of the certification threshold.

AEA believes that the smaller prime contractor and sub-contractor is affected by the lower threshold as is the U.S. Government itself. There are costs borne by the U.S. Government that are directly associated with the lower threshold. While there are those who hold that savings will accrue to the U.S. Government as a direct result of lowering the certification threshold, my experiences, and those of other AEA members, lead to an opposite conclusion. In short, a good portion of these so-called "cost savings" are more imagined than real. In this context I should like to present the following notions for your consideration:

(a) Estimated hourly cost of all the human resources utilized in the procurement process has more than tripled since 1962. If the certification threshold is restored to the 1962 level it simply means that labor costs for both government and industry personnel relative to that threshold is about 3 1/2 times higher per procurement dollar. To the extent that the threshold itself impacts the utilization of manpower that utilization will have been greatly impacted from a cost point of view.

(b) It must be understood that the U.S. Government must not only bear the cost of its own human resources it must also bear the cost of industry personnel engaged in the procurement process. To this extent, smaller contractors and subcontractors will need to engage more personnel and even greater costs if a lower threshold is imposed.

(c) There is a view (and we feel a faulty one) that suggests that it is principally the certification and/or audit of cost or pricing data that results in significant "cost savings" to the U.S. Government. In my opinion there is something a lot more important and a lot more basic going on during contract formulation. Notwithstanding the provisions of the Defense Acquisition Regulations (DAR), the entire procurement process eventually comes down to a businessman dealing with a valued customer. His desire to satisfy his customer's needs and, as a result, enjoy a long relationship and repeat business with his customer transcend any concerns about certification of data, audits and so forth. Simply put, there are more powerful forces at work than the Truth in Negotiation Act during the procurement process. The influence of certification on the transaction of business in its simplest form has been exaggerated.

(d) Some proponents of a lower certification threshold cite "cost savings" to the government resulting from pre-award financial audits of cost proposals. However, the pre-award financial audit of a cost proposal and the resultant recommendation considers all data, factual and estimated. The so-called, "cost savings" have little if anything to do with defective data per se. Rather, the audit recommendation is merely a difference of opinion between the auditor and the contractor. Sometimes that difference is "real"; other times it is inspired by the need to "find something". We are, after all, dealing with human nature here. It is conceivable that a perfectly good contract pricing proposal could be questioned more severely than a terribly weak and erroneous one. I have seen it happen. But the point is that it is not necessarily <u>defective</u>

data that forms the basis of audit recommendations. Further, it must be understood that all audit recommendations do not and should not survive the ensuing negotiations. It is important to remember that while many government auditors are fine, earnest and competent men and women, they are not always right. Consequently, their findings are sometimes (and rightly so) refuted and overruled. But that is what the negotiation process is all about. It affords both sides an opportunity to debate the issues and reach a reasonable accommodation.

Finally, a personal note. I have been engaged in cost and pricing activity on virtually a daily basis for over 25 years. In all that time I cannot recall a single contract pricing proposal where its direct cost of the product that were impacted by as much as one dollar because of the need to certify cost or pricing data. However, indirect costs are impacted by staff requirements to support the procurement process. Also I cannot recall a single negotiation where the final price was concluded on any other basis than it would have been had the certification requirements not existed. The principal determinant of price is and ought to be the inherent desire to sustain a fruitful and profitable relationship with a good customer over the long term and the willingness of reasonable and competent people to negotiate in good faith. In substance, then, it is the negotiation process itself not the audit and certification processes that establish price.

Thank you, Mr. Chairman and members of the committee for your attention. I will be pleased to discuss this issue with you either now or in the future and to answer any questions you may have. Thank you once again for the opportunity to be with you today.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT
POLICY

TESTIMONY OF DONALD E. SOWLE
ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY
BEFORE THE
ARMED SERVICES INVESTIGATIONS SUBCOMMITTEE
OF THE
U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ARMED SERVICES

September 29, 1983

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on H.R. 2545, the "Defense Procurement Reform Act of 1983." We support the thrust of H.R. 2545, which would amend the Armed Services Procurement Act to promote competition by eliminating the distinction between formal advertising and competitive negotiation; deleting the exceptions to formal advertising under which procurement is now negotiated; and limiting the conditions under which non-competitive procurement would be permitted. The bill would also remove fee limitations on contracts; permit multi-year contracting for all "services"; and provide multi-year authority for the National Aeronautics and Space Administration (NASA) and the Coast Guard. Finally, it would extend to NASA and the Coast Guard the statutory debarment and suspension procedures now applicable to the Department of Defense (DOD).

Background

Magnitude of Procurement

Approximately one-fifth of the total, annual Federal budget is used to purchase products and services from the private sector. In FY 1982, this was almost $160 billion, requiring 19 million contract actions. 130,000 people in nearly one hundred Federal agencies are involved, directly or indirectly, in awarding and administering these contracts. Many more are involved in the decisions which impact on the procurement process. Because of the magnitude of Federal procurement, it has long commanded the attention of public officials and private citizens. All too often, however, this attention has focused on individual abuses and inefficiencies, rather than on creating an overall system to support the agencies in carrying out their missions.

Commission on Government Procurement

The first, comprehensive, high-level study devoted solely to the problems of Federal procurement was performed by the Congressional Commission on Government Procurement (COGP) in 1970-72. In establishing the Commission, Congress recognized that annual expenditures for procurement and attendant administrative costs are such that even small improvements

could yield large rewards and that a full-scale study of the problems which persisted in procurement was warranted.

The Commission made 149 recommendations for improving the procurement process in its Report to the Congress in December 1972. The Commission recommended a single statute, which would apply to all agencies and would serve as the basis for a single, Government-wide procurement regulation.

The Commission found that one reason for public concern over the procurement process was the high proportion of non-competitive contracts awarded by the Government. The current statutes prescribe formal advertising as the preferred method of procurement and spell out the exceptions under which procurement may be negotiated. These exceptions to formal advertising, which were intended to permit negotiation, are frequently, though incorrectly, used as bases for non-competitive procurement. The fact is, competition is required even for negotiated procurements. However, the statutes do not contain any restrictions on the use of non-competitive procurement. Year after year, approximately one-third of the total procurement dollars spent are non-competitive. (This does not include follow-on procurements, which can be considered a form of competitive procurement.) Therefore, the Commission recommended some fundamental changes in the procurement statutes to give

contracting officers greater flexibility in seeking competition. They also recommended some statutory restrictions on non-competitive procurement.

Uniform Federal Procurement System

Since its creation in 1974, the Office of Federal Procurement Policy has been active in promoting competition in Government contracts. "New concepts of competition" was one of the four major themes in the Administration's Proposal for a Uniform Federal Procurement System (UFPS), which was submitted to Congress in February of last year. The proposal attacks the barriers to competition which exist throughout the entire procurement process, as well as in the statutes. The proposed procurement system would introduce new statutory concepts of competition, together with new methods to stimulate and expand the use of competition and to statutorily restrict non-competitive procurement to very special circumstances. Procurement under the UFPS would be either competitive or non-competitive, with an absolute preference for competition. Competition would be obtained through the use of sealed bids or competitive negotiation procedures. Circumstances under which a non-competitive contract could be awarded would be strictly limited by statute.

Presidential Interest

Following submission of the UFPS to Congress, President Reagan signed Executive Order 12352, "Federal Procurement Reforms," on March 17, 1982. The Order addressed those areas of procurement reform which could be dealt with administratively, including specific direction to the agencies to develop criteria to enhance competition and to limit non-competitive procurement.

More recently, on August 11th, as part of Reform '88 -- the President's six-year program to modernize management practices and to increase productivity in the Federal Government -- President Reagan issued a memorandum to the heads of the departments and agencies on competition in Federal procurement. The memorandum stated that "competition is fundamental to our free enterprise system" and that "it is the single most important source of innovation, efficiency and growth in our economy."

OFPP Policy Letter

In that memorandum, the President also directed me to issue policy to establish Government-wide restrictions on the use of non-competitive procedures. On August 12th, we issued for public comment a proposed policy letter on

non-competitive procurement. The proposed policy letter establishes specific circumstances under which non-competitive procurement must be justified; requires the agency Procurement Executives to establish approval procedures for non-competitive procurement; requires special control procedures for non-competitive awards resulting from unsolicited proposals; and requires that proposed, non-competitive procurement actions be published in the Commerce Business Daily, detailing the reason that there is no competition.

However, the non-competitive policy letter is just an interim measure for use until Congress makes the necessary statutory changes to establish new concepts of competition and to restrict non-competitive procurement.

Recent Congressional Action

Public Law 98-72

Public Law 98-72, which amends Section 8(e) of the Small Business Act, is one step in that direction. The Act prohibits Federal agencies from awarding a non-competitive contract or a contract that results from an unsolicited proposal, unless the head of the procuring activity or his deputy has approved the contract. The level of review is set at $1 million for FY 84; $500,000 for FY 85; and $300,000 for FY 86 and subsequent years.

S. 338

S. 338, the "Competition in Contracting Act of 1983," is currently pending in the Senate. H.R. 2545 is similar in some respects to S. 338, which the Administration supports, in that it would amend the Armed Services Procurement Act to provide a distinction between competitive procurement (sealed bids or competitive proposals) and non-competitive procurement and would place restrictions on the use of non-competitive procurement. However, S. 338 amends both the Federal Property and Administrative Services Act and the Armed Services Procurement Act and provides uniform coverage for both. In addition, S. 338 provides fewer circumstances under which non-competitive procurement could be justified.

H. R. 2545

H.R. 2545 is a step in the right direction, because it, too, places formal advertising and negotiated procurement on an equal basis and eliminates the need for determinations and findings previously required for competitively negotiated contracts. The emphasis on increased competition and the restrictions placed on non-competitive procurement comport with the Administration's efforts under Reform '88.

Section 3 provides needed amendments to the present Act by including the Department of Defense within the meaning of "head of an agency" and providing a concise statement of the coverage of the Act.

Section 4 provides conforming amendments to the Walsh-Healy Act and the Davis-Bacon Act, consistent with existing law.

Section 6 contains a number of amendments which we favor:

- It repeals unnecessary restraints on use of different types of contracts and eliminates the fee limitations imposed in contracts. I believe that strict compliance with competitive procedures and the careful scrutiny of non-competitive contracts will ensure reasonable fees.

- Section 6 makes changes in the Truth in Negotiations Act which are necessary to comport with the changes in procurement procedures. It allows cost or pricing data not otherwise covered by the Act to be requested when it is necessary for the evaluation of the reasonableness of price. I believe that it should also be requested to determine whether costs are reasonable.

  We question leaving the threshold for application of the Act at $500,000. We consider $100,000 a more

reasonable threshold. Lowering this threshold to $100,000 would place little additional burden on the contractor, because, whether the contract being negotiated is $100,000 or $500,000, the contracting officer needs and will normally request accurate and complete supporting data. If, in implementing the Act, agencies were to impose the same audit requirements at $100,000 as are now imposed at $500,000, it would increase the burden on both the contractor and the Government. Absent this, the only added burden to the contractor is the requirement to certify the accuracy, currency and completeness of the data submitted. Any additional burden has not been demonstrated. It also seems reasonable to assume that the costs or prices a contractor or subcontractor quotes are developed in a systematic way and are based on factual data.

- Section 6 further expands multi-year coverage to all service contracts and provides multi-year authority for services, as well as products, for NASA and Coast Guard.

- This section also adds a new provision allowing annual funds (funds normally required to be obligated and expended within the fiscal year) to be used for 12 month service contracts which cross fiscal years. This

is a needed and welcome change. It would permit agencies to schedule the award of service contracts throughout the fiscal year to meet agency needs. Further, it would allow the agencies to distribute their workload more efficiently and permit more opportunity to obtain competition.

However, we do have some reservations concerning the bill:

- As I indicated previously, H.R. 2545, as written, amends only the Armed Services Procurement Act. In order to correct problems which exist across the Government, any modifications should be made in both the Armed Services Procurement Act and the Federal Property and Administrative Services Act. Modifications to only one statute would run counter to the efforts to create more uniformity in the Federal procurement process.

  The Commission on Government Procurement found that there were more than 30 troublesome inconsistencies between the two Acts. Some of the inconsistencies stemmed from special problems originally encountered by only one or a limited number of agencies, but most of them arose simply because there were two basic procurement statutes which had been amended at different times

in different ways by different Committees, without adequate coordination of changes to achieve a uniform statutory base. The present statutory foundation consists of disparate, confusing restrictions and limited authority to avoid these restrictions. Therefore, the Commission recommended consolidation of the two procurement statutes as a major step in fostering a regulatory system that would encourage, rather than inhibit, those wishing to do business with the Government. It would also focus attention on procurement as a Government-wide operation and discourage accommodation of parochial interests. While procurement actions have taken place for more than 35 years under two statutes, we should at least take advantage of every opportunity to keep these dual statutes uniform.

o Section 2: The declaration of policy in Sec. 2 of H.R. 2545 would be applicable equally to procurement by DOD and the civil agencies. The section should include the policy of relying on the private sector to provide needed goods and services. Such a statement would be in keeping with Congressional and executive branch interest.

The policy also should encourage the development of a career management program to ensure the continuation of a fully professional work force. The success of the procurement system depends primarily upon the quality of the personnel supporting it.

o Section 4: This section defines the term "competitive procedures" as solicitations of sealed bids or solicitation of proposals from more than one source. However, the term "competitive proposals," which is used in the bill, does not appear in the definition of "competitive procedures." We believe that this is an oversight which should be corrected.

This section of the bill also provides 10 conditions under which non-competitive procedures may be used. We agree with the concept of placing restrictions on the use of non-competitive procurements. We note, however, that the language used to describe the conditions which would justify using non-competitive procurement closely parallels the language used in the present exceptions to formal advertising. We believe that use of the same or similar language is confusing and would tend to perpetuate some of the abuses that have occurred in the past. These exceptions to formal advertising provide the basis for negotiations, which can be either

competitive or non-competitive, and they do not focus on the present problems relating to non-competitive procurement. We believe that some changes are necessary in this area. The language needs to be tightened and clearly address only non-competitive situations.

For example, one of the conditions under which non-competitive procurement is permitted is when the head of the agency determines that it is necessary and not inconsistent with the public interest to award the contract on other than a competitive basis. This would provide a very broad, catch-all condition for not competing a contract. If such a condition is considered necessary, it should be very narrow in scope to properly limit the circumstances for non-competitive award. We and the major Federal procurement agencies would be pleased to work with the Committee in developing suitable language.

Section 4 also provides that the authority of the head of an agency to make this determination may be delegated to the general or flag officer level or to the SES rank. While we recognize that some of the Federal agencies may support this delegation of authority, we believe that these levels of approval are too low.

Such a determination should be made at the Secretarial level and should require a statement of rationale and strict accountability for the decision.

Section 4, further, provides authority for the Secretary of Defense to set the ceiling for small purchases for DOD, NASA and the Coast Guard. This would result in one ceiling being set for the military agencies and one for the civil agencies. Such disparate treatment of small purchases would complicate the analysis of reporting data and would also be contrary to increasing uniformity in the procurement system for the benefit of the Government and its suppliers.

o Section 5, covering contract award procedures, provides that competitively negotiated proposals "shall be solicited from a number of qualified sources consistent with the interests of the agency in effective and efficient competition." We agree that "effective" competition is an absolute requirement; however, we do not agree that "efficient" competition is a standard to be encouraged. Such a standard would permit a limitation on the number of proposers in the name of "efficiency" and, thereby, foreclose qualified proposers who may have a new, innovative, or creative proposal to offer.

Summary

In summary, we support the thrust of H.R. 2545. However, the sections which I discussed today illustrate our concerns with the bill. We would be pleased to work closely with your staff to further develop the bill along the lines I have outlined.

Mr. Chairman, this concludes my formal statement. I will be pleased to respond to any questions you may have.